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RUEHUJA/AMEMBASSY ABUJA 1396  
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RUEHDS/AMEMBASSY ADDIS ABABA 1400  
RUEHBY/AMEMBASSY CANBERRA 0661  
RUEHDK/AMEMBASSY DAKAR 1026  
RUEHKM/AMEMBASSY KAMPALA 1454  
RUEHNR/AMEMBASSY NAIROBI 3846  
RUEHFR/AMEMBASSY PARIS 1223  
RUEHRO/AMEMBASSY ROME 1876  
RUEHBS/USEU BRUSSELS  
RUEHGV/USMISSION GENEVA 0604  
RHEHAAA/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1616  
RUEKJCS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEFDIA/DIA WASHDC//DHO-7//  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

UNCLAS SECTION 01 OF 03 HARARE 001453

SIPDIS

SENSITIVE  
SIPDIS

AF/S FOR S. HILL  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN  
TREASURY FOR J. RALYEA AND T. RAND  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)  
SUBJECT: ZIMBABWE'S 2007 BUDGET RELEASE - NO SOUND AND FURY  
- NO SIGNIFICANCE EITHER

REF: HARARE 01361

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Summary  
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¶1. (SBU) Finance Minister Murerwa conceded Zimbabwe's dismal 2006 economic performance in presenting his 2007 Budget to Parliament. He painted a grim picture of the state of the economy across nearly all sectors and indicators. Nevertheless, he premised the 2007 Budget on optimistic projections that are unlikely to be realized. Symbolic of the budget as whole, Murerwa announced that the quasi-fiscal activities of the Reserve Bank of Zimbabwe (RBZ) would be wrapped into the budget, but gave no indication how the fiscus would fund the parastatals or end their losses. In a post-budget discussion, local analysts concluded that the GOZ remain unwilling to embrace needed reforms, that the harsh economic environment, including especially high inflation, would persist in 2007 and that supplemental budgets would once more be needed. End Summary.

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Finance Minister Concedes Deep Contraction in 2006  
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¶2. (U) Finance Minister Murerwa conceded the economy would contract by 2.5 percent in 2006 with the mining and

manufacturing sectors declining by 14.4 percent and 7 percent respectively. In the manufacturing sector, he admitted that most companies were operating below 30 percent capacity. Murerwa put growth in the agriculture sector in 2006 at 6.4 percent. (N.B. far lower than his projection a half year ago of 23 percent expansion).

¶3. (U) Furthermore, Murerwa reported a 6 percent decline in Zimbabwe's exports in 2006; mineral exports fell 0.2 percent and manufactured exports slid 6.3 percent. Imports declined 1.6 percent. On the other hand, he claimed the capital account improved on the back of net inflows of US\$298 million in foreign direct investment (N.B. primarily in the platinum industry), and the current account deficit for 2006 was US\$543 million.

¶4. (U) The Finance Minister noted that Zimbabwe's external sovereign debt was US\$4.1 billion at end October, of which US\$2.2 billion were arrears. Domestic debt, which now made up about 15 percent of GDP, soared from Z\$15.9 billion in December 2005 to Z\$97.8 billion in October 2006 and was being financed to 98.5 percent by short-term Treasury bills. (N.B. All Zimbabwe dollar figures are in revalued currency; the official exchange rate, unchanged since July 31, is Z\$250:US\$1; the parallel street rate is at an all-time premium of about Z\$2600:US\$1)

¶5. (U) In his statement, Murerwa reported the official annualized inflation figure for October 2006 of 1070 percent and broad money (M3) supply growth for the year at over 1000 percent. Private sector analyses, however, put the inflation

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figure much closer to 2000 percent (and the true figure as we have reported elsewhere may be two to three times higher than these private analyses.)

¶6. (U) Murerwa also announced that the RBZ's quasi-fiscal expenditures would be wrapped into the budget (reftel) over a three-year period. As a result, he projected a budget deficit of 43 percent of GDP in 2006, up from the original estimate of 4.6 percent but also up from his revised estimate of 23.9 percent, reflecting the government's continued lack of discipline with respect to quasi-fiscal activity ) regardless of where it's accounted for. (N.B. Inexplicably, the 43 percent deficit figure excludes interest.) Regarding the promised privatization and commercialization of public enterprises in 2006, Murerwa conceded "minimal progress, if any."

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Nevertheless, Rosy Prognosis for 2007 Budget  
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¶7. (U) Murerwa based his 2007 Budget, which projects a fall in the deficit to 17.6 percent of GDP (again not including interest payments), on the following -- excessively optimistic -- indicators for the coming year:

- 0.5-1.0 percent GDP growth;
- 9.4 percent growth in agriculture;
- 4.9 percent growth in mining;
- A recovery in tourism;
- A slower rate of decline (2 percent) in manufacturing;
- An end-2007 inflation target of 350-400 percent (and single digit inflation by end-2008);
- Money supply growth of 415-500 percent at end-2007; and
- Nominal GDP in 2007 of Z\$8.5 trillion.

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Short-Lived Relief For The Taxpayer  
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¶8. (SBU) Although the 2007 Budget upped the tax-free threshold from Z\$20,000 to Z\$100,000, and the top tax bracket from Z\$54,600 to Z\$1 million, the measure failed to keep pace

with soaring inflation and offered little or no relief to taxpayers. In fact, the Consumer Council of Zimbabwe reported that the cost of living for an urban family of six in November jumped to Z\$208,000 from Z\$141,000 in October. PriceWaterhouseCoopers tax expert Manuel Lopes told econoff on December 1 that the Poverty Datum Level would probably reach Z\$1 million by September 2007. Furthermore, in an indication of the GOZ's lack of confidence in its own projections, Murerwa announced that civil servant salaries would henceforth be reviewed on a quarterly, rather than semi-annual basis.

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Harsh Economic Environment Likely to Persist  
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¶9. (SBU) At a post-budget workshop on December 1, respected local economist John Robertson said he saw no indication that the rate of inflation would fall in 2007. The GOZ had shown no interest in restraining the extraordinary growth in the money supply, the main source of inflation. He predicted at least one, possibly two supplemental budgets in the course of ¶2007.

¶10. (SBU) At the same workshop, Stanbic Bank Head of Risk Management and Economic Research Panashe Chitumba said he doubted whether expenditures could be "squeezed" as much as the 2007 Budget indicated without major reforms, in particular of the many parastatals. As long as the parastatals were not allowed to charge cost-recovery prices, he said the "quasi-fiscal challenge" remained unresolved. He predicted the harsh environment of 2006 was likely to persist in 2007 and that supplemental budgets would be needed to see the GOZ through the coming year.

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Comment  
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¶11. (SBU) Murerwa concluded his address to Parliament quoting Saint Paul to the Corinthians, "Outwardly we are wasting away." There is no doubt he got that part right. In its 8th straight year of decline, Zimbabwe is the odd-country out in the region and will remain so until the GOZ embraces the need for reform. In the interval, Murerwa's Budget was little more than a housekeeping exercise to adjust expenditure and revenue upward in line with inflation and we have no expectation that RBZ Governor Gono's January Monetary Policy Statement will be any more substantive.

SCHULTZ